

Renewable Energy Question 31: *What impact has Michigan's retail market structure had on compliance with the renewable energy standard?*

Executive Summary

1. Renewable energy capacity is only being built by the state's regulated utilities, while Alternative Energy Suppliers (AESs) have chosen to rely on the current availability of excess Renewable Energy Credits to comply with the renewable energy standard requirements
2. The limit in the level of deregulation in Michigan (the 10% cap) has made it possible for the state's utilities to be confident that the significant investments made in renewable energy will serve the needs of the state and its customers fairly

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In its February 15, 2013 *Report on the Implementation of the P.A. 295 Renewable Energy Standard and the Cost-Effectiveness of the Energy Standard*, the Michigan Public Service Commission noted that:

"Consumers Energy and Detroit Edison have made substantial progress toward complying with the renewable energy standard... In addition to meeting the requirement in PA 295 for RECs that is applicable to all electric providers, both Consumers Energy and Detroit Edison have renewable capacity requirements pursuant to Section 27 of PA 295 (MCL 460.1027). The capacity requirements are only applicable to these two Companies as they serve the vast majority of electric load in Michigan."

On the other hand, the same report notes that AESs have not contributed to the investments Michigan is making in renewable energy.

"Almost all AESs have indicated through REPs and 2011 annual reports that they will purchase RECs to meet the 2012 renewable energy standard requirement. The two largest utilities in Michigan have driven the expansion of renewable energy and have incurred most of the associated costs while the AESs have incurred little or no costs associated with complying with the statute at this time."

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- 2. The limit in the level of deregulation in Michigan (the 10% cap) has made it possible for the state's utilities to be confident that the significant investments made in renewable energy will serve the needs of the state and its customers fairly**

Consumers Energy and DTE Energy will invest over \$3 billion to meet the renewable energy requirement of PA 295. The retail market structure that caps deregulation at 10% provides a reasonable assurance of load stability, which is necessary to make these kinds of significant capital investments possible. An uncertain regulatory environment, with a moving target on the level of deregulation, would make it difficult for the utilities to invest in renewables due to a lack of planning certainty for both renewable and non-renewable generation (see Electric Choice Question 6 and Electric Choice Question 7 for a more detailed discussion of the challenges of making capital investments in a deregulated market). The inability to plan for future load would also likely lead to higher financing costs for renewable investments, ultimately resulting in higher customer costs.